Commonwealth of Massachusetts

Department of Public Utilities

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Rate Structures that will Promote Efficient)	D.P.U. 07-50
Deployment of Demand Resources)	
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Initial Comments of the Northeast Energy Efficiency Council

I. INTRODUCTION

On June 22, 2007, the Department of Public Utilities (the "Department") issued an order opening an investigation into rate "decoupling." Rate Structures that will Promote Efficient Deployment of Demand Resources, D.P.U. 07-50 ("Order Opening Investigation"). The Order Opening Investigation set out a straw proposal and invited general comments and responses to 13 specific questions. The Northeast Energy Efficiency Council (the "Efficiency Council") submits these comments in response to that order.

II. GENERAL COMMENTS

The Importance of Decoupling

The Department clearly articulated the importance of decoupling in its Order Opening Investigation:

- Deployment of demand resources advances "important state, regional, and national goals," including:
 - Efficient use of resources
 - Reduced customer bills

- o Price responsive wholesale electricity markets
- Reduced risks associated with climate change
- Reduced environmental impacts
- Current rate structures create a barrier to deployment of demand resources.
 Under these rate structures, electric and gas company revenues increase when sales increase, giving the companies an incentive to promote increased sales, and company revenues decrease when sales decrease, giving the companies an incentive to avoid decreases in sales, including decreases resulting from deployment of demand resources.
- Decoupling will remove this barrier by severing the link between company revenues and sales.

The Need to Move Quickly

Given the benefits of demand resources, and the importance of those benefits to the Commonwealth's economic and environmental health, the Department should move quickly to implement decoupling. The Department articulated this need in the Order Opening Investigation:

In this context of elevated and volatile prices in wholesale energy commodity markets, the Department anticipates that demand resources will play an increasingly important role in Massachusetts and across the region in the provision of electric and gas service that is safe, reliable, and reasonably-priced. However, because demand resources are located on the customer side of the meter, in the current ratemaking context they always will reduce a company's sales. This inherent conflict between the incentive to increase sales promoted by current revenue-collection mechanisms and the reduced consumption resulting from the use of demand resources creates a significant barrier to the efficient deployment of these important resources, **one that must be addressed expeditiously**.

Order Opening Investigation at 3 (emphasis added).

Given the benefits of decoupling, and the need to move quickly, the Department should adopt an approach to decoupling that can be implemented expeditiously. In particular, the Department should not make completion of a base rate proceeding a prerequisite to decoupling. Given the time and resources that will be needed to complete base rate proceedings, such a requirement would likely delay implementation of decoupling for years. Instead, the Department should allow decoupling to move forward based on the companies' existing revenue requirements. This would allow decoupling to proceed now, and the resulting benefits to be realized by customers. This could be followed up with individual cost of service proceedings without delay to the important decoupling policy.

Shareholder Incentives are still Needed

Decoupling will not remove the need for shareholder incentives for energy efficiency activities. Decoupling will only make utilities *indifferent* to the deployment of demand resources. It simply removes a barrier. However, achieving the Commonwealth's energy efficiency goals requires more than utility indifference; it requires active and enthusiastic utility involvement. The Department's existing shareholder incentive mechanism has enabled this level of utility involvement, and, as a result, Massachusetts has realized hundreds of millions of dollars of savings from efficiency programs. This successful policy should continue.

III. RESPONSES TO QUESTIONS

Question 1

The Department's proposal that a company's allowed revenues per customer be determined through a subsequent base rate proceeding is intended to ensure that the allowed revenue levels, which serve as the basis for the base revenue adjustment mechanism, are closely aligned with the company's costs. Under what, if any, circumstances should the Department permit a company's allowed revenues per customer to be determined through some manner other than a base rate proceeding?

Response

The Department should permit the companies' allowed revenues under decoupling (whether recovered on a per customer basis or in some other fashion) to be determined based on the companies' currently allowed revenues. This would enable decoupling to be implemented expeditiously, without the significant delay that base rate proceedings would cause. We support the Department's desire to align revenues with costs, and recognize that, for many of the companies, it has been many years since the last base rate case. However, the benefits of increased deployment of demand resources that decoupling will enable should not be delayed.

Question 2

The Department's proposal uses an approach in which a company's allowed revenues per customer for each rate class does not change between base rate proceedings. An alternate approach would be to adjust the allowed revenues per customer values periodically, based on changes in each rate class' average usage per customer. Please discuss the merits of each approach.

Response

Allowed revenues per customer should not change based on average usage per customer. Doing so would "re-couple" sales and revenues and so undermine the primary objective of decoupling.

Question 3

The Department's proposal that a company's actual versus allowed revenues be reconciled annually is intended to balance three objectives: rate stability, rate continuity, and administrative efficiency. Do annual reconciliations strike an appropriate balance among these three objectives or would alternate reconciliation periods (e.g., quarterly or semi-annually) better do so?

Response

Annual reconciliations strike an appropriate balance.

Question 4

The Department's proposal to determine a company's actual revenue based on billed revenues is consistent with the base rate treatment applied to distribution-related bad debt costs. An alternate approach would be to determine actual revenues based on payments received. Please discuss the merits of each approach.

Response

The Department's proposed method of determining actual revenue based on billed revenues is preferable. It is consistent with current practice and places the risk of uncollected bills on entities that can control that risk (the companies) rather than on entities that cannot (ratepayers).

Question 5

The Department's proposal for determining billed revenues is based on actual consumption. An alternate approach would be to determine billed revenues based on consumption normalized for weather and/or other factors.

- (a) Please discuss the merits of determining billed revenues using actual versus weathernormalized consumption.
- (b) Should consumption be normalized for other factors (e.g., economic conditions)? If so, identify those factors and describe how the normalization for such factors could be done.

Response

Billed revenues should be determined based on actual consumption, not on consumption normalized for weather. Doing so will reduce weather risks for both the

companies and customers. Also, weather is not a strong driver of distribution costs.

So, it would be inappropriate for the companies to collect, and customers to pay, more when weather is severe, as would be the case if consumption were normalized for weather.

Question 6

The Department's proposal to recover the difference between a company's target and projected revenues through adjustments to its base energy charges is intended to send appropriate price signals to consumers. An alternate approach would be to adjust both base energy and demand charges (where applicable) to recover this difference. Please discuss the merits of each approach.

Response

An adjustment to energy charges only is preferable for reasons of simplicity.

Question 7

The Department's proposal to require a company to submit quarterly filings identifying actual and allowed revenues is intended to ensure that changes in rates are made in a predictable and gradual manner.

- (a) Under what circumstances should the Department allow an adjustment in base charges during a reconciliation period?
- (b) Under what circumstances should the Department initiate a review of a company's base revenue adjustment mechanism?

Response

As suggested in the Order Opening Investigation, charges should be adjusted during a reconciliation period if "the cumulative difference between the actual and allowed revenues is outside a pre-determined range." Order Opening Investigation at 16.

Question 8

What standards should the Department use to measure the performance of a company's base revenue adjustment mechanism over time?

Response

The performance of the revenue adjustment mechanism should be measured by how closely the adjustments to revenues track changes in utility costs and by how frequently charges need to be adjusted within reconciliation periods.

Question 9

How will the implementation of a base revenue adjustment mechanism affect a company's risk and how should such considerations be reflected in a company's capital structure and ROE?

Response

These questions should be addressed in the context of individual utility proceedings.

Question 10

The Department's proposal to include a shared earnings provision in the base revenue adjustment mechanism is intended to strike an appropriate balance between the risks borne by customers and shareholders associated with company earnings. Please comment on the merits of such a provision. Also, comment on the design of the proposed earnings sharing provision.

Response

There is significant merit in including a shared earnings provision in the base revenue adjustment mechanism. Such mechanisms help to further align the interests of utilities and customers.

Question 11

Please comment on the merits of implementing a base rate adjustment mechanism with and without the individual elements of a PBR plan (e.g., fixed term, inflation, productivity, performance standards, exogenous factors).

Response

Performance standards and incentives should be adopted along with the base rate adjustment mechanism. There is no conflict between decoupling and performance-based rate mechanisms. These tools have been extremely effective at focusing utility attention on the most critical aspects of customer service. Utilities should be given clear standards of what constitutes exemplary performance and should be rewarded when they achieve it. Customers benefit as a result.

Question 12

Please comment on how the Department should schedule the implementation of a base revenue adjustment mechanism for each gas and electric company in light of the need to move expeditiously, the resources required to implement such changes, and the specific circumstances of each company. How should the Department determine the order of individual base rate proceedings?

Response

The Department should design its approach to decoupling so as to enable expeditious implementation. Accordingly, the Department should not require base rate proceedings as a prerequisite to implementation of decoupling. Doing so would greatly slow the implementation of this important initiative. Instead, the Department should allow proposals to implement decoupling based on currently allowed revenues.

Question 13

How should the implementation of a base revenue adjustment mechanism affect the performance-based shareholder incentives that gas and electric companies currently are eligible to receive for promoting energy efficiency?

Response

The shareholder incentives for energy efficiency programs should continue.

Decoupling simply makes utilities financially indifferent to the deployment of demand

resources; it does nothing to encourage them to facilitate deployment of those

resources. Shareholder incentives are needed to provide that encouragement. Indeed,

shareholder incentives have been an important contributor to the enormous success of

Massachusetts utility energy efficiency programs. In addition, incentives should be

considered for a broader range of demand resources, including renewable energy,

combined heat and power, and demand response.

Respectfully submitted,

NORTHEAST ENERGY EFFICIENCY COUNCIL

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